

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 1997

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-475

A. O. SMITH CORPORATION

Delaware 39-0619790  
(State of Incorporation) (IRS Employer ID Number)

P. O. Box 23972, Milwaukee, Wisconsin 53223-0972  
Telephone: (414) 359-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Shares of Stock Outstanding February 25, 1998	Name of Each Exchange on Which Registered
Class A Common Stock (par value \$5.00 per share)	5,817,174	American Stock Exchange
Common Stock (par value \$1.00 per share)	10,184,022	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act  
of 1934 during the preceding 12 months and (2) has been subject to such  
filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item  
405 of Regulation S-K is not contained herein, and will not be contained,  
to the best of registrant's knowledge, in definitive proxy or information  
statements incorporated by reference in Part III of this Form 10-K or any  
amendment to this Form 10-K. [ X ]

The aggregate market value of voting stock held by nonaffiliates of the  
registrant was \$18,108,997 for Class A Common Stock and \$380,492,515 for  
Common Stock as of February 25, 1998.

Documents Incorporated by Reference:

1. Portions of the company's definitive Proxy Statement dated March 2,  
1998 for an April 8, 1998 Annual Meeting of Stockholders are  
incorporated by reference in Part III.

PART I

ITEM 1 - BUSINESS

A. O. Smith Corporation, a Delaware corporation organized in 1916, its  
subsidiaries and its affiliates are engaged in three business segments.  
These segments are Electric Motor Technologies, Water Systems Technologies  
and Storage & Fluid Handling Technologies.

The company's Electric Motor Technologies segment produces fractional  
horsepower and hermetic electric motors. The Water Systems Technologies  
Segment is a leading manufacturer of residential and commercial gas, oil,  
and electric water heating systems. Storage & Fluid Handling Technologies  
manufactures reinforced thermosetting resin piping, agricultural,  
industrial and municipal liquid and dry bulk storage systems. Financial  
information regarding the company's business segments is provided in Note  
13 to the Consolidated Financial Statements which appear elsewhere herein.

On April 18, 1997 the company sold its Automotive Products Company to  
Tower Automotive, Inc. See Note 2 to the Consolidated Financial  
Statements, entitled "Discontinued Operations" which appears elsewhere  
herein.

On March 31 1997, the company acquired the business of UPPCO, Inc., a  
privately held manufacturer of sub-fractional horsepower electric motors  
with 1997 sales since the date of acquisition of approximately \$57  
million.

The following table summarizes sales by segment for the company's  
operations. This segment summary and all other information presented in  
this section should be read in conjunction with the Consolidated Financial  
Statements and the Notes thereto which appear elsewhere herein.

	Years Ended December 31				
	(Dollars in Millions)				
	1997	1996	1995	1994	1993
Electric Motor Technologies	\$390.7	\$337.1	\$317.3	\$281.2	\$242.6
Water Systems Technologies	287.5	291.3	276.0	271.5	248.1
Storage & Fluid Handling Technologies	154.7	152.8	103.4	95.3	92.2
Total Continuing Operations	\$832.9	\$781.2	\$696.7	\$648.0	\$582.9

#### ELECTRIC MOTOR TECHNOLOGIES

Segment sales increased by \$53.6 million or approximately 16 percent in 1997 to \$390.7 million and represented 47 percent of total company continuing sales. The increase in sales in 1997 was due to the acquisition of UPPCO.

The Electric Motor Technologies segment includes the A. O. Smith Electrical Products Company which manufactures fan motors used in furnaces, air conditioners, and blowers, as well as fractional horsepower motors used in other consumer products and jet pump motors sold to manufacturers of home water systems, swimming pools, hot tubs and spas. Hermetic motors are sold worldwide to manufacturers of compressors and are used in air conditioning and refrigeration systems. Sales to the heating, ventilating, air conditioning and refrigeration market account for approximately 59 percent of the unit's sales.

In addition to selling its products directly to OEMs, the company also markets its products through a distributor network which sells to both OEMs and the related after-market. The company estimates that approximately 60 percent of the market is derived from the less cyclical replacement business with the remainder being impacted by general business conditions in the new construction market.

The segment's principal products are sold in competitive markets with its major competitors being Emerson Electric, General Electric, Magnetek, Inc., Fasco, and Jakel and vertically integrated customers.

#### WATER SYSTEMS TECHNOLOGIES

The Water Systems Technology segment includes the A. O. Smith Water Products Company which had 1997 sales of \$287.5 million, approximately 1 percent lower than 1996 sales of \$291.3 million and represented approximately 35 percent of total company sales.

Residential sales in 1997 were \$166 million or approximately 57 percent of segment revenues. The company markets residential gas and electric water heaters through a network of plumbing wholesalers in the United States. The majority of the company's sales are in the less cyclical replacement market although the new housing market is an important portion of the business as well. The residential water heater market remains highly competitive. A. O. Smith competes with four other manufacturers in supplying over 90 percent of market requirements. The principal competitors in the Water Systems segment are Rheem Manufacturing, State Industries, The American Water Heater Group (formerly SABH, Inc.) and Bradford-White.

The company also markets commercial water heating systems through a network of plumbing wholesalers in the United States and Canada. A.O. Smith's Water Systems Technologies segment is the largest manufacturer of commercial water heaters. Commercial water heating systems are used in a wide range of applications including schools, nursing homes, hospitals, prisons, hotels, motels, laundries, restaurants, stadiums, amusement parks, car washes, and other large users of hot water. The commercial market is characterized by competition from a broader range of products and competitors than occurs in the residential market.

A significant portion of the company's commercial and residential business is derived from the less cyclical replacement market with the remainder being impacted by general business conditions in the new construction market.

In 1995 Water Systems established a joint venture with Nanjing Water Heater Company of China to manufacture instantaneous and storage type heaters for the Chinese market. A.O. Smith is a majority owner of the venture, which began operation in 1996.

#### STORAGE & FLUID HANDLING TECHNOLOGIES

The Storage & Fluid Handling segment provides world-wide solutions for effectively storing liquids and a wide range of dry materials; as well as high performance piping systems that safely and effectively contain and convey corrosive, abrasive or related materials. Higher sales of fluid handling products more than offset a decline in storage products, and as a result, 1997 sales rose slightly to \$154.7 million compared with 1996 sales of \$152.8 million.

Engineered Storage Products manufactures industrial, municipal and agricultural liquid and dry bulk storage products. 1997 sales of storage products were \$93.1 million. The company's storage products are sold in competitive markets that include concrete, site welded, and bolted tanks. Principal competitors include Columbian Steel Tank Company, Permastore LTD., Pittsburg Tank and Tower Company Inc. and Natgun Corporation.

Fiberglass Products manufactures reinforced thermosetting resin piping and

fittings used to carry corrosive materials. Sales of fluid handling products were \$61.6 million in 1997. Typical applications include chemical and industrial process and waste steam piping, high and low pressure oil field pipe and tubing, and underground gasoline service station piping. Products are sold through a network of distributors.

Fiberglass Products has formed a joint venture with Harbin Composites Corporation of Harbin, China to supply fiberglass pipe to the Chinese oil industry. The company is a majority owner of the new venture, which began production in 1996.

Principal fluid handling products are sold in competitive markets with its major competitors being Ameron Corporation, Fibercast Company, Environ Corporation, and Total Containment Corporation.

#### RAW MATERIAL

Raw materials for the company's operations, which consist primarily of steel, copper, and aluminum, are generally available from several sources in adequate quantities. The company hedges the majority of its annual purchases of copper and aluminum to protect against price volatility.

#### SEASONALITY

There is no significant seasonal pattern to the company's consolidated quarterly sales and earnings.

#### RESEARCH AND DEVELOPMENT, PATENTS AND TRADEMARKS

In order to improve competitiveness by generating new products and processes, the company conducts research and development at its Corporate Technology Center in Milwaukee, Wisconsin as well as at its operating unit locations. Total expenditures for research and development in 1997, 1996, and 1995 were approximately \$17.2 million, \$17.3 million, and \$15.0 million, respectively.

The company owns and uses in its businesses various trademarks, trade names, patents, trade secrets, and licenses. While a number of these are important to the company, it does not consider a material part of its business to be dependent on any one of them.

#### EMPLOYEES

The company and its subsidiaries employed approximately 8,400 persons in its operations as of December 31, 1997.

#### BACKLOG

Normally, none of the company's operations sustain significant backlogs.

#### ENVIRONMENTAL LAWS

The company's operations are governed by a variety of federal, state and local laws intended to protect the environment. While environmental considerations are a part of all significant capital expenditures, compliance with the environmental laws has not had a material effect and is not expected to have a material effect upon the capital expenditures, earnings, or competitive position of the company. See Item 3.

#### FOREIGN SALES

Total export sales of continuing operations from the U.S. were \$ 64 million, \$ 52 million, and \$ 49 million in 1997, 1996, and 1995, respectively. The increase in sales in 1997 compared with prior years was attributable to the acquisition of UPPCO.

#### ITEM 2 - PROPERTIES

The company manufactures its products in 33 locations worldwide. These facilities have an aggregate floor space of 4,658,641 square feet, consisting of 3,425,891 square feet owned by the company and 1,232,750 square feet of leased space. Fifteen of the company's facilities are foreign plants including affiliates and joint ventures with 1,320,931 square feet of space, of which 428,786 square feet are leased.

	United States	Foreign
Electric Motor Technologies (1,838,025 sq.ft.)	Mebane, NC; Monticello, IN; Mt. Sterling, KY; Paoli, IN; Tipp City, OH; Upper Sandusky, OH	Acuna, Mexico; Bray, Ireland; Juarez, Mexico (5); Monterrey, Mexico Villa de Cura, Venezuela
Water Systems Technologies (1,675,826 sq. ft.)	El Paso, TX; Florence, KY; McBee, SC; Renton, WA	Juarez, Mexico; Nanjing, People's Rep. of China; Stratford, Canada (2); Veldhoven, The Netherlands
Storage & Fluid Handling Technologies (1,144,790 sq. ft.)	Bakersfield, CA; DeKalb, IL; Little Rock, AR (3); Parsons, KS; Wichita, KS; Winchester, TN	Harbin, People's Republic of China

The principal equipment at the company's facilities consist of presses, welding, machining, slitting and other metal fabricating equipment, winding machines, and furnace and painting equipment. The company regards its plant and equipment as well-maintained and adequate for its needs. Multishift operations are used where necessary.

In addition to its manufacturing facilities, the company's World Headquarters is located in Milwaukee, Wisconsin. It also has offices in Alsip, Illinois; El Paso, Texas; Irving, Texas; London, England and Beijing, China.

#### ITEM 3 - LEGAL PROCEEDINGS

The company is involved in various unresolved legal actions, administrative proceedings and claims in the ordinary course of its business involving product liability, property damage, insurance coverage, patents and environmental matters including the disposal of hazardous waste. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible loss or recovery, the company believes these unresolved legal actions will not have a material effect on its financial position or results of operations. A more detailed discussion of these matters appears in Note 12 of the Notes to Consolidated Financial Statements.

#### ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the security holders during the fourth quarter of 1997.

#### EXECUTIVE OFFICERS OF THE COMPANY

Pursuant to General Instruction of G(3) of Form 10-K, the following list is included as an unnumbered Item in Part I of this report in lieu of being included in the company's Proxy Statement for its 1998 Annual Meeting of Stockholders.

##### ROBERT J. O'TOOLE

Chairman of the Board of Directors, President, and Chief Executive Officer

Mr. O'Toole, 57, became chairman of the board of directors in March 1992. He is a member of the Investment Policy Committee of the board of directors. He was elected chief executive officer in March 1989. He was elected president, chief operating officer and a director in 1986. Mr. O'Toole joined the company in 1963. He is a director of Briggs & Stratton Corporation, Firststar Bank Milwaukee, N.A., Firststar Corporation and Protection Mutual Insurance Company.

##### GLEN R. BOMBERGER

Executive Vice President, Chief Financial Officer, and Director

Mr. Bomberger, 60, has been a director and executive vice president and chief financial officer of the company since 1986. He is a member of the Investment Policy Committee of the board of directors. Mr. Bomberger joined A.O. Smith in 1960. He is currently a director and vice president-finance of Smith Investment Company. He is a director of Firststar Funds, Inc.

##### JOHN A. BERTRAND

President - A. O. Smith Electrical Products Company

Mr. Bertrand, 59, has been president of A. O. Smith Electrical Products Company, a division of the company, since 1986. Mr. Bertrand joined the company in 1960.

##### CHARLES J. BISHOP

Vice President - Corporate Technology

Dr. Bishop, 56, has been vice president-corporate technology since 1985. Dr. Bishop joined the company in 1981.

##### MICHAEL J. COLE

Vice President - Asia

Mr. Cole, 54, was elected vice president-Asia in March 1996. Previously he was vice president-emerging markets of Donnelly Corporation, an automotive supplier.

##### JOHN R. FARRIS

President - A. O. Smith Engineered Storage Products Company

Mr. Farris, 48, was elected president of A. O. Smith Engineered Storage Products Company, a division of the company, in July 1997. Previously he was president of A. O. Smith Harvestore Products, Inc. since November 1996 and president of Peabody TecTank, Inc. since 1987. Both of these subsidiaries were dissolved and the new entity A. O. Smith Engineered Storage Products Company established in July 1997.

##### DONALD M. HEINRICH

President - Smith Fiberglass Products Company

Mr. Heinrich, 45, became the president of Smith Fiberglass Products Company, a division of the company, in November 1997. He served as vice president-business development of A. O. Smith Corporation from October 1992.

WILLIAM R. HENNIG

President - A. O. Smith Water Products Company

Mr. Hennig, 50, became the president of A. O. Smith Water Products Company, a division of the company, in June 1996. He served as vice president of A. O. Smith Electrical Products Company's Juarez Operations since January 1993 and held other management positions in the Electrical Products Company. He joined A.O. Smith in 1989.

JOHN J. KITA

Vice President, Treasurer and Controller

Mr. Kita, 42, was elected vice president, treasurer and controller in April 1996. From 1995 to 1996 he was treasurer and controller. Prior thereto, he served as assistant treasurer since he joined the company in 1988.

RONALD E. MASSA

Senior Vice President

Mr. Massa, 48, was elected senior vice president in June 1997. He served as the president of A. O. Smith Automotive Products Company from June 1996 to June 1997. He was the president of A. O. Smith Water Products Company from 1995 and held other management positions in the Water Products Company prior thereto. He joined the company in 1976.

ALBERT E. MEDICE

Vice President - Europe

Mr. Medice, 55, was elected vice president - Europe in 1995. Previously, from 1990 to 1995, he was the general manager of A. O. Smith Electric Motors (Ireland) Ltd., a subsidiary of the company. Mr. Medice joined A.O. Smith in 1986 as vice president-marketing for its Electrical Products Company division.

EDWARD J. O'CONNOR

Vice President - Human Resources and Public Affairs

Mr. O'Connor, 57, has been vice president - human resources and public affairs for the company since 1986. He joined A.O. Smith in 1970.

W. DAVID ROMOSER

Vice President, General Counsel and Secretary

Mr. Romoser, 54, was elected vice president, general counsel and secretary in March 1992.

## PART II

### ITEM 5 - MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) Market Information. The Common Stock is listed on the New York Stock Exchange. The Class A Common Stock of A. O. Smith Corporation is listed on the American Stock Exchange. The symbols for these classes of the company's stock are: AOS for the Common Stock and SMCA for the Class A Common Stock. Firststar Trust Company, P. O. Box 2077, Milwaukee, Wisconsin 53201 serves as the registrar, stock transfer agent, and the dividend reinvestment agent for both classes of the company's common stock.

#### Quarterly Common Stock Price Range

1997	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Common Stock				
High	35-5/8	37-1/2	39-3/4	43-3/8
Low	28-5/8	33-7/8	34	39-3/4
Class A Common				
High	35-1/4	37-1/4	39-1/2	43-1/8
Low	29-3/4	34	34-3/4	40-3/8
1996	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Common stock				
High	25-1/2	27-7/8	25-3/8	33
Low	20-7/8	22-5/8	21-5/8	24
Class A Common				
High	25-3/4	27-1/2	25-1/8	33
Low	20-1/2	22-3/4	21-1/2	24-1/8

- (b) Holders. As of January 31, 1998, the number of shareholders of record of Common Stock and Class A Common Stock were 1,461 and 649, respectively.
- (c) Dividends. Dividends paid on the common stock are shown in Note 14 to the Consolidated Financial Statements appearing elsewhere herein. The company's credit agreements contain certain conditions and provisions which restrict the company's payment of dividends. Under the most restrictive of these provisions, retained earnings of \$86.6 million were unrestricted as of December 31, 1998.
- (d) Stock Repurchase Authority. On December 9, 1997, the company's Board of Directors authorized the repurchase of up to \$50 million of its outstanding Class A and Common Stock. As of February 2, 1998, approximately five million shares had been repurchased for \$183 million, under the two previous authorizations granted in 1997.

#### ITEM 6 - SELECTED FINANCIAL DATA

(Dollars in Thousands, except per share amounts)

	Years Ended December 31				
	1997	1996	1995	1994	1993
Net sales - continuing operations	\$ 832,937	\$ 781,193	\$ 696,700	\$ 648,004	\$ 582,919
Earnings					
Continuing operations	37,553	25,249	23,995	17,066	7,477
Discontinued operations:					
Operating earnings	15,231	40,168	37,418	40,281	35,201
Gain on disposition	101,046	--	--	--	--
Earnings	116,277	40,168	37,418	40,281	35,201
Net earnings	\$ 153,830	\$ 65,417	\$ 61,413	\$ 57,347	\$ 42,678
Basic earnings per share of common stock					
Continuing operations	\$ 2.04	\$ 1.21	\$ 1.15	\$ .82	\$ .37
Discontinued operations	6.31	1.92	1.79	1.93	1.71
Net earnings	\$ 8.35	\$ 3.13	\$ 2.94	\$ 2.75	\$ 2.08
Diluted earnings per share of common stock					
Continuing operations	\$ 2.00	\$ 1.19	\$ 1.14	\$ .81	\$ .36
Discontinued operations	6.19	1.90	1.77	1.90	1.68
Net earnings	\$ 8.19	\$ 3.09	\$ 2.91	\$ 2.71	\$ 2.04
Cash dividends per common share	\$ .68	\$ .66	\$ .58	\$ .50	\$ .42*

	December 31				
	1997	1996	1995	1994	1993
Total assets	\$ 716,516	\$ 871,152	\$ 748,479	\$ 660,546	\$ 658,080
Long-term debt	100,972	238,446	190,938	166,126	190,574
Total stockholders' equity	399,705	424,639	372,364	312,745	269,630

\* Excludes special dividend of .25 per share (split adjusted).

The company adopted FAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" effective January 1, 1996.

#### ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

##### FINANCIAL REVIEW

A. O. Smith Corporation recorded earnings from continuing operations of \$37.6 million or \$2.00 per diluted share in 1997 versus \$25.2 million or \$1.19 per diluted share in 1996. Earnings from discontinued operations added \$116.3 million to the company's net earnings in 1997 compared to \$40.2 million in 1996, providing the company with total net earnings of \$153.8 million and \$65.4 million in 1997 and 1996, respectively. The 1997 earnings from discontinued operations include a \$101.0 million gain, net of taxes, associated with the disposition of the automotive business. As

a result, diluted earnings per share totaled \$8.19 in 1997 versus \$3.09 in 1996. Details of individual segment performance will be discussed later in this section.

Working capital for continuing operations at December 31, 1997 was \$244.3 million compared to \$103.4 million and \$127.7 million at December 31, 1996 and 1995, respectively. The majority of the increase in 1997 was due to the net cash proceeds received from the sale of the company's automotive products business. Lower accounts receivable and production related increases in trade payables resulted in lower working capital at December 31, 1996 versus 1995.

Capital expenditures for continuing operations were \$44.9 million in 1997 compared to \$37.8 million in 1996 and \$26.9 million in 1995. The increases in capital expenditures are primarily attributed to higher capital expenditures for the Electric Motor Technologies business. The company expects that cash flow from operations will adequately cover 1998 capital expenditures.

The company established two joint ventures in the People's Republic of China in the fourth quarter of 1995. The company invested \$13.7 million in these joint ventures during 1997 compared to \$15.1 million in 1996.

Long-term debt was reduced \$137.4 million from \$238.4 million at the end of 1996 to \$101.0 million at the end of 1997. The proceeds from the sale of the automotive business, including its Mexican automotive affiliate, was \$773 million. A portion of the proceeds was used to pay taxes on the transaction, repurchase common stock, retire long term debt, and complete the acquisition of UPPCO. As a result, the company's leverage, as measured by total debt to total capital, dropped to 21.0% at the end of 1997 compared to 37.1% at the end of 1996.

On January 27, 1997, the company's Board of Directors authorized the repurchase of up to three million shares of its outstanding common stock. On June 10, 1997 and December 9, 1997, the Board authorized the repurchase of up to \$80 million and \$50 million, respectively, of additional common stock. During 1997, the company purchased 14,500 shares of Class A Common Stock and 4.8 million shares of Common Stock for approximately \$176.6 million.

Due to significant cash and cash equivalent balances, the company elected to reduce its multi-year revolving credit agreement from \$210 million to \$100 million effective September 30, 1997.

The company uses futures contracts to fix the cost of portions of its expected raw materials needs, primarily for copper and aluminum, with the objective of reducing risk due to market price fluctuations. In addition, the company enters into foreign currency forward contracts to minimize the effect of fluctuating foreign currencies on transactions and operations of foreign affiliates. Differences between the company's fixed price and current market prices on raw materials contracts are included as part of inventory cost when the contracts mature. Differences between the company's fixed price and current market prices on currency contracts are recognized in the same period in which gains or losses from the transactions being hedged are recognized and, accordingly, no net gain or loss is realized when contracts mature. The company does not engage in speculation in its derivatives strategies. The effects of these programs were not material on the results of operations for 1997, 1996, or 1995.

A. O. Smith Company has paid dividends for 58 consecutive years. A total of \$.68 per share was paid in 1997 versus \$.66 per share in 1996.

#### Results of Operations

Sales from continuing operations in 1997 were \$832.9 million surpassing 1996 sales of \$781.2 million by almost \$52 million or 6.6 percent. The increase in sales was attributable to the acquisition in March of UPPCO, a manufacturer of subfractional horsepower C-frame electric motors, which contributed \$56.6 million to total company sales. The increase in sales associated with UPPCO helped overcome weakness in the domestic air conditioning and residential water heating industries which are two of the company's most significant markets. Sales from continuing operations in 1996 increased approximately \$85 million compared with 1995 sales of \$696.6 million. The sales increase was the result of \$50 million of additional sales associated with the acquisition of Peabody TecTank Inc., made in December of 1995 and sales increases of approximately 6 percent for both Water Systems and Electric Motor Technologies.

During 1997, the company successfully completed its exit from the automotive industry by selling the Automotive Products Company for \$710 million on April 18, 1997. On October 1, 1997, the company divested the remainder of its automotive business by selling its 40 percent interest in a Mexican automotive affiliate for \$63 million. The after-tax gain on the sale of \$101.1 million combined with 1997 after-tax earnings of \$15.2 million generated net earnings from discontinued operations of \$116.3 million or \$6.19 per diluted share. The results of the automotive business have been reported as discontinued operations in the consolidated financial statements.

The company's gross profit margin for continuing operations in 1997 was 20.5 percent, compared with 21.4 percent in 1996 and 20.3 percent in 1995. Each of the company's business units experienced a decline in 1997 profit margin relative to 1996. Profit margins for Electric Motor Technologies dropped due to lower production rates and the lower margins associated with subfractional motors produced by UPPCO. Water Systems Technologies experienced a slight decline in profit margin as second half pricing pressure for residential products was only partially offset by increased

sales of higher margin commercial product. Storage & Fluid Handling Technologies' overall margin declined as favorable product mix for fiberglass pipe was more than offset by lower volumes for the relatively high margin liquid storage tank product. The favorable trend in margins from 1995 to 1996 was due mostly to higher manufacturing volume, increased capacity utilization and improved operating efficiencies for electric motor production.

Sales for the Electric Motor Technologies segment in 1997 increased \$53.6 million or almost 16 percent to a record \$390.7 million from 1996 sales of \$337.1 million. Sales in 1995 were \$317.3 million. The increase in sales in 1997 was due to the acquisition of UPPCO as discussed above. Although 1997 sales, excluding the additional sales from the aforementioned acquisition, were comparable to 1996, the company was encouraged by the performance of this segment given the weakness in the air conditioning market in 1997. An abnormally cool selling season combined with high customer inventory levels resulted in a decline in overall industry production volume of more than 10 percent compared to 1996. Despite the weak market conditions, hermetic motor volumes declined only modestly. The cool weather also affected other motor markets, specifically pump motors, heating, ventilating and air conditioning (HVAC) fan motors and aftermarket sales. 1997 fractional horsepower sales were about equal to 1996 levels as a 10 percent growth in the General Industries market resulting from additional air compressor and garage door opener motor volume offset the weather related weakness.

Earnings for the Electric Motor Technologies segment in 1997 were \$45.4 million or 6.2 percent higher than the \$42.7 million earned in 1996. Earnings in 1995 were \$31.9 million. The improved earnings in 1997 were due to the UPPCO acquisition while the significant improvement over the past few years was due to increased volume and the continued payoff from capital investments in new equipment and concentration of production in lower cost facilities.

Sales for the Water Systems Technologies segment declined modestly from \$291.3 million in 1996 to \$287.5 million in 1997. Sales in 1995 were \$276 million. The minor drop off in sales in 1997 was due to decreased unit volume for residential product which reflected conditions prevalent within the general industry. The unfavorable impact of decreased volume was amplified by a competitive pricing environment present during the second half of the year. Conversely, sales of commercial product rose on the strength of higher unit volume and better pricing. The international environment improved in 1997 as both the Canadian and European markets for Water Products showed signs of recovery.

Earnings for Water Systems Technologies in 1997 have remained fairly constant over the past three years, despite the aggressive pricing environment that has existed during this time period. Earnings were \$33.4 million, \$32.8 million and \$32.2 million in 1997, 1996 and 1995, respectively.

Sales for the Storage & Fluid Handling Technologies segment reflected slight improvement in 1997 increasing to \$154.7 million from \$152.8 million in 1996. 1996 sales increased \$49.4 million over 1995 sales of \$103.4 million due to the December, 1995 acquisition of Peabody TecTank, Inc., which contributed approximately \$50 million to this segment's 1996 sales. The sales increase from 1996 to 1997 resulted from record sales of fiberglass pipe which more than offset a sales decline for liquid storage tanks. Earnings in 1997 were similar to 1996 as the impact of additional volume and favorable product mix for fiberglass pipe was offset by the loss of volume for the relatively high margin liquid storage tanks.

Selling, general, and administrative (SG & A) expense in 1997 was \$107.0 million, about equal to 1996 SG & A of \$107.4 million. SG & A in 1995 was \$91.4 million. As a percent of sales, SG & A dropped from 13.7 percent in 1996 to 12.8 percent in 1997. The decline in SG & A relative to sales was due largely to a reduction in general corporate expenses resulting from the divestiture of the Automotive Products Company. The increase in SG & A from \$91.4 million in 1995 to \$107.4 million in 1996 was due to the consolidation of SG & A associated with the acquisition of Peabody TecTank, Inc., as well as increased sales commissions and other expenses in support of increased sales volumes.

Interest expense, net of the amount allocated to discontinued operations, was \$7.8 million in 1997 compared to \$8.1 million and \$7.6 million in 1996 and 1995, as debt levels for continuing operations remained fairly constant during the period.

Interest income in 1997 was \$9 million and resulted from investing the proceeds received from the sale of the automotive business. Interest income in 1996 and 1995 was minimal.

The company's effective tax rate decreased to 34.6 percent in 1997 from 37 percent and 35.9 percent in 1996 and 1995, respectively. The decline in the rate in 1997 resulted primarily from the impact of the utilization of state tax loss carryforwards associated with liquidated subsidiaries and research tax credits.

The company's share of the pre-tax losses incurred by its joint ventures in China increased slightly from 1996 to 1997, however, the after-tax losses declined from \$3.9 million in 1996 to \$2.7 million in 1997 due to the company's ability to now tax effect these losses for U.S. tax purposes. Current projections for 1998 China activity reflect a loss similar to that of 1997 as start up costs associated with the new water heater plant in Nanjing are incurred.

Consolidated earnings from continuing operations in 1997 increased 49



percent to \$37.6 million compared with 1996 earnings of \$25.2 million reflecting the UPPCO acquisition, increased interest income and reduced general corporate expenses. Diluted earnings per share of \$2.00 in 1997 were 68 percent higher than the \$1.19 per share earned in 1996, underscoring the additional benefit of the company's share repurchase program.

#### Outlook

Looking ahead to 1998, the company expects to encounter continued competitive pricing in the residential water heater market as well as in certain electric motor markets. This impact should be mitigated by favorable interest income, lower customer inventory levels in HVAC markets, a full year of UPPCO earnings, and a significantly lower average number of shares outstanding relative to 1997.

#### OTHER MATTERS

##### Year 2000

Many computer systems experience problems handling dates beyond the year 1999. Therefore, some computer hardware and software will need to be modified prior to the end of the year 1999 in order to remain functional. Relative to the Year 2000, the company has conducted a comprehensive review of its computer systems to identify those systems that could be affected by this issue and has initiated a company wide project to resolve any potential issues. The company believes that, with in-house modifications and vendor-supplied enhancements to existing software as well as deployment of new systems, the Year 2000 issue does not pose significant operational problems for the company's computer systems. It is anticipated that all modifications, enhancements, and deployment of Year 2000-ready systems will be completed in early 1999, allowing adequate time for testing. Modification and enhancement costs will be expensed as incurred, while the costs of new software will be capitalized and amortized over the software's useful life. The company does not expect the costs to be incurred over the next two years to have a material effect on its financial position or results of operations. The amount expensed in 1997 was not material.

##### Environmental

The company's operations are governed by a number of federal, state and local environmental laws concerning the generation and management of hazardous materials, the discharge of pollutants into the environment and remediation of sites owned by the company or third parties. The company has expended substantial financial and managerial resources complying with such laws. Expenditures related to environmental matters were not material in 1997 and are not expected to be material in any single year. Although the company believes that its operations are in compliance with such laws and maintains procedures designed to maintain compliance, there are no assurances that substantial additional costs for compliance will not be incurred in the future. However, since the company's competitors are governed by the same laws, the company should not be placed at a competitive disadvantage.

##### Forward Looking Statements

Certain statements in this report are forward-looking statements. Although the company believes that its expectations are based upon reasonable assumptions within the bounds of its knowledge of its business, there can be no assurance that the company's financial goals will be realized. Although a significant portion of the company's sales are derived from the replacement of previously installed product and such sales are therefore less volatile, numerous factors may affect the company's actual results and may cause results to differ materially from those expressed in forward-looking statements made by or on behalf of the company. Among such numerous factors the company includes the continued strong growth of the worldwide heating, ventilating and air conditioning market, the stability of the pricing environment for residential water heaters and the successful implementation of the company's joint venture strategies in China.

#### ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

##### Index to Financial Statements:

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REPORT OF ERNST & YOUNG LLP,  
INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
A. O. Smith Corporation

We have audited the accompanying consolidated balance sheet of A. O. Smith Corporation as of December 31, 1997 and 1996 and the related consolidated statements of earnings and retained earnings and cash flows for each of the three years in the period ended December 31, 1997. Our audits also included the financial statement schedule listed in the index in Item 14(a). These financial statements and schedule are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of A. O. Smith Corporation at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Milwaukee, Wisconsin  
January 19, 1998

CONSOLIDATED BALANCE SHEET  
December 31 (dollars in thousands)

Assets	1997	1996
Current Assets		
Cash and cash equivalents	\$ 145,896	\$ 6,405
Receivables	126,232	121,571
Inventories	79,049	80,445
Deferred income taxes	11,849	12,416
Other current assets	2,702	4,537
	-----	-----
Total Current Assets	365,728	225,374
Net property, plant, and equipment	207,756	182,600
Investments in and advances to joint ventures	25,605	14,579
Prepaid pension	37,468	46,628
Other assets	28,176	37,777
Goodwill	51,783	6,540
Net long-term assets - discontinued operations	--	357,654
	-----	-----
Total Assets	\$ 716,516	\$ 871,152
	=====	=====
Liabilities		
Current Liabilities		
Trade payables	\$ 61,299	\$ 66,514
Accrued payroll and benefits	26,397	27,362
Accrued liabilities	13,556	7,228
Income taxes	6,607	1,351
Product warranty	7,972	7,563
Long-term debt due within one year	5,590	11,932
Net current liabilities-discontinued operations	6,461	2,602
	-----	-----
Total Current Liabilities	127,882	124,552
Long-term debt	100,972	238,446
Product warranty	18,349	17,109
Post retirement benefit obligation	16,756	17,000
Deferred income taxes	28,442	31,271
Other liabilities	24,410	18,135
	-----	-----
Total Liabilities	316,811	446,513
Commitments and contingencies (notes 7 and 12)		
Stockholders' Equity		
Preferred Stock	--	--
Class A Common Stock (shares issued 5,838,858 and 5,846,158)	29,192	29,231
Common Stock (shares issued 15,860,792 and 15,853,492)	15,861	15,853
Capital in excess of par value	72,542	69,410
Retained earnings	466,514	325,361
Cumulative foreign currency translation adjustments	(1,579)	(7,401)
Treasury stock at cost	(182,825)	(7,815)
	-----	-----
Total Stockholders' Equity	399,705	424,639
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 716,516	\$ 871,152
	=====	=====

See accompanying notes which are an integral part of these statements.

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

Years ended December 31 (dollars in thousands, except per share amounts)

Earnings	1997	1996	1995
<b>Continuing</b>			
Net sales	\$ 832,937	\$ 781,193	\$ 696,700
Cost of products sold	662,227	614,218	555,578
	-----	-----	-----
Gross profit	170,710	166,975	141,122
Selling, general, and administrative expenses	106,999	107,350	91,398
Interest expense	7,762	8,114	7,616
Interest income	(9,035)	(341)	(246)
Other expense - net	3,328	5,629	4,934
	-----	-----	-----
Provision for income taxes	61,656	46,223	37,420
	21,359	17,080	13,425
	-----	-----	-----
Earnings before equity in loss of joint ventures	40,297	29,143	23,995
Equity in loss of joint ventures	(2,744)	(3,894)	--
	-----	-----	-----
Earnings from Continuing Operations	37,553	25,249	23,995
<b>Discontinued</b>			
Earnings from operations less related income tax (1997 - \$7,698; 1996 - \$19,988; and 1995 - \$22,048)	15,231	40,168	37,418
Gain on disposition less related income tax of \$71,538	101,046	--	--
	-----	-----	-----
Net Earnings	153,830	65,417	61,413
<b>Retained Earnings</b>			
Balance at beginning of year	325,361	273,751	224,467
Cash dividends on common stock	(12,677)	(13,807)	(12,129)
	-----	-----	-----
Balance at End of Year	\$ 466,514	\$ 325,361	\$ 273,751
	=====	=====	=====
<b>Basic Earnings Per Share of Common Stock</b>			
Continuing Operations	\$2.04	\$1.21	\$1.15
Discontinued Operations	6.31	1.92	1.79
	-----	-----	-----
Net Earnings	\$8.35	\$3.13	\$2.94
	=====	=====	=====
<b>Diluted Earnings Per Share of Common Stock</b>			
Continuing Operations	\$2.00	\$1.19	\$1.14
Discontinued Operations	6.19	1.90	1.77
	-----	-----	-----
Net Earnings	\$8.19	\$3.09	\$2.91
	=====	=====	=====

See accompanying notes which are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended December 31 (dollars in thousands)

	1997	1996	1995
<b>Operating Activities</b>			
Continuing			
Net earnings	\$ 37,553	\$ 25,249	\$ 23,995
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	26,286	23,601	22,166
Deferred income taxes	(2,262)	(3,345)	9,587
Equity in loss of joint ventures	2,744	3,894	--
Net change in current assets and liabilities	10,797	24,320	(6,647)
Net change in other noncurrent assets and liabilities	3,635	4,083	4,040
Other	1,495	2,630	(737)
	-----	-----	-----
Cash Provided by Operating Activities	80,248	80,432	52,404
	-----	-----	-----
<b>Investing Activities</b>			
Capital expenditures	(44,886)	(37,804)	(26,851)
Capitalized purchased software			

costs	(1,295)	(2,567)	(406)
Acquisition of businesses	(60,918)	(1,111)	(18,000)
Investment in joint ventures	(13,719)	(15,147)	(3,404)
	-----	-----	-----
Cash Used by Investing Activities	(120,818)	(56,629)	(48,661)
	-----	-----	-----
Cash Flow Provided (Used) by Continuing Operations before Financing Activities	(40,570)	23,803	3,743
Discontinued Cash provided (used) by operating activities	(106,132)	113,644	64,534
Cash used by investing activities	(52,456)	(177,116)	(82,461)
Proceeds from disposition	773,090	--	--
Tax payments associated with disposition	(106,039)	--	--
Cash Flow Provided (Used) by Discontinued Operations before Financing Activities	508,463	(63,472)	(17,927)
Financing Activities			
Long-term debt incurred	--	58,507	65,000
Long-term debt retired	(143,816)	(4,000)	(42,510)
Purchase of treasury stock	(176,550)	--	--
Net proceeds from common stock and option activity	3,757	539	49
Tax benefit from exercise of stock options	884	28	96
Dividends paid	(12,677)	(13,807)	
	-----	-----	-----
Cash Provided (Used) by Financing Activities	(328,402)	41,267	10,506
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	139,491	1,598	(3,678)
Cash and cash equivalents-- beginning of year	6,405	4,807	8,485
	-----	-----	-----
Cash and Cash Equivalents-- End of Year	\$ 145,896	\$ 6,405	\$ 4,807
	=====	=====	=====

See accompanying notes which are an integral part of these statements.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

##### 1. Organization and Significant Accounting Policies

**Organization.** A.O. Smith Corporation is a diversified manufacturer serving customers world-wide. The corporation's major product lines include: fractional horsepower and hermetic electric motors; residential and commercial water heaters; fiberglass piping systems and water, waste water, and dry storage tanks. The corporation's products are marketed primarily in North America. The corporation has two plants in Europe and two joint ventures in China. Original equipment manufacturers are the largest customers of the electric motor technologies unit. Water heaters are distributed principally through a diverse network of plumbing wholesalers. Fiberglass piping is sold through a network of distributors to the service station market and the petroleum production industry as well as the chemical/industrial market. The corporation's storage tanks and handling systems are sold through a network of dealers to municipalities, industrial concerns, and farmers. As discussed in Note 2, the operations of the automotive products business are classified as discontinued operations.

**Consolidation and basis of presentation.** The consolidated financial statements include the accounts of the corporation and its wholly-owned subsidiaries.

**Investments in joint ventures.** The Corporation has two joint ventures in the Peoples Republic of China, which are accounted for under the equity method. The corporation holds a majority interest in each. The joint ventures are involved in the manufacture and distribution of products similar to those of the corporation's water systems and storage and fluid handling technologies businesses.

**Use of estimates.** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Fair values.** The carrying amounts of cash and cash equivalents, accounts receivable and payable, and long-term borrowings approximated fair value as of December 31, 1997 and 1996.

**Foreign currency translation.** For all subsidiaries outside the United States with the exception of Mexico, the corporation uses the local currency as the functional currency. For these operations, assets and liabilities are translated into U.S. dollars at year-end exchange rates and weighted average exchange rates are used for revenues and expenses. The resulting translation adjustments are recorded as a separate component

of stockholders' equity. Gains and losses from foreign currency transactions are included in net earnings.

Cash and cash equivalents. The Company considers all highly liquid investments, generally with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents consisting principally of money market funds, totaled \$140 million at December 31, 1997. The cost of these securities are considered to be "available for sale" for financial reporting purposes.

Inventory valuation. Inventories are carried at lower of cost or market. Cost is determined on the last-in, first-out (LIFO) method for a significant portion of domestic inventories. Inventories of foreign subsidiaries and supplies are determined using the first-in, first-out (FIFO) method.

Derivative instruments. The corporation enters into futures contracts to fix the cost of certain raw material purchases, principally copper and aluminum, with the objective of minimizing cost risk due to market fluctuations. Any differences between the corporation's fixed price and current market prices are included as part of the inventory cost when the contracts mature. As of December 31, 1997, the corporation had contracts covering the majority of its expected copper and aluminum requirements for 1998, with varying maturities in 1998, the longest duration of which is December 1998. These futures contracts limit the impact from both favorable and unfavorable price changes. The effect of these programs was not material to the results of operations for the three years ended December 31, 1997.

As a result of having various foreign operations, the corporation is exposed to the effect of foreign currency rate fluctuations on the U.S. dollar value of its foreign subsidiaries. Further, the corporation and its subsidiaries conduct business in various foreign currencies. To minimize the effect of fluctuating foreign currencies on its income, the corporation enters into foreign currency forward contracts. The contracts are used to hedge known foreign currency transactions on a continuing basis for periods consistent with the corporation's exposures.

The corporation does not engage in speculation. The difference between market and contract rates is recognized in the same period in which gains or losses from the transactions being hedged are recognized. The contracts, which are executed with major financial institutions, generally mature within one year with no credit loss anticipated for failure of the counterparties to perform.

The following table summarizes, by currency, the contractual amounts of the corporation's forward exchange contracts.

December 31 (dollars in thousands)	1997		1996	
	Buy	Sell	Buy	Sell
U.S. dollar	\$ 2,500	\$ 6,400	\$ 2,200	\$ 2,000
British pound	2,563	1,139	4,385	--
French franc	--	2,565	--	746
German deutsche mark	--	--	--	1,491
Canadian dollar	709	--	--	--
Mexican peso	32,486	--	--	--
			21,950	--
	-----	-----	-----	-----
Total	\$ 38,258	\$ 10,104	\$ 28,535	\$ 4,237
	=====	=====	=====	=====

The contracts in place at December 31, 1997 and 1996 amounted to approximately 80 and 60 percent, respectively, of the corporation's anticipated subsequent year exposure for those currencies hedged.

Goodwill. Goodwill, representing the excess of cost over net assets of businesses acquired, is stated at cost and is amortized on a straight line basis over periods of 15 to 40 years. The corporation reviews the recoverability of goodwill when events and circumstances so indicate. Amortization charged to operations amounted to \$1.4 million and \$.5 million in 1997 and 1996, respectively.

Property, plant, and equipment. Property, plant, and equipment are stated at cost. Depreciation is computed primarily by the straight-line method.

Revenue recognition. The corporation recognizes revenue upon shipment of product to the customer.

Research and development. Research and development costs are charged to expense as incurred and amounted to approximately \$17.2, \$17.3, and \$15.0 million for continuing operations during 1997, 1996, and 1995, respectively.

Environmental remediation costs. The corporation accrues for losses associated with environmental obligations when such losses are probable and reasonably estimable. Costs of future expenditures are not discounted to their present value. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable. The accruals are adjusted as further information develops or circumstances change.

Earnings per share of common stock. The corporation has adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share," which replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. All earnings per share

amounts for all periods have been restated to conform to the SFAS No.128 requirements. The numerator for the calculation of basic and diluted earnings per share is earnings. The denominator is computed as follows:

	1997	1996	1995
Denominator for basic earnings per share--weighted average shares	18,422,871	20,922,195	20,912,702
Employee stock options (treasury stock method)	371,319	233,998	221,937
Denominator for diluted earnings per share	18,794,190	21,156,193	21,134,639

Reclassifications. Certain prior year amounts have been reclassified to conform to the 1997 presentation.

New accounting standards. In June 1997, the Financial Accounting Standards Board issued SFAS No. 130, "Reporting Comprehensive Income," which establishes the standards for reporting and displaying comprehensive income and its components (revenues, expenses, gains, and losses) as part of a full set of financial statements. This statement requires that all elements of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The statement is effective for fiscal years beginning after December 15, 1997. Since this statement applies only to the presentation of comprehensive income, it will not have any impact on the corporation's results of operations, financial position or cash flows.

In June 1997, the Financial Accounting Standards Board also issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes the standards for the manner in which public enterprises are required to report financial and descriptive information about their operating segments. The statement defines operating segments as components of an enterprise for which separate financial information is available and evaluated regularly as a means for assessing segment performance and allocating resources to segments. A measure of profit or loss, total assets, and other related information are required to be disclosed for each operating segment. In addition, this statement requires the annual disclosure of information concerning revenues derived from the enterprise's products or services, countries in which it earns revenue or holds assets, and major customers. The statement is also effective for fiscal years beginning after December 15, 1997. The adoption of SFAS No. 131 will not affect the corporation's results of operations or financial position, but may affect the disclosure of segment information.

## 2. Discontinued Operations

On April 18, 1997, the corporation sold its automotive products business, excluding its Mexican automotive affiliate, for \$710 million. On October 1, 1997, the corporation sold the remainder of its automotive business with the sale of its 40% interest in its Mexican affiliate for \$63 million. The results of the automotive businesses have been reported separately as discontinued operations and prior year consolidated financial statements have been restated.

The components of the net assets and liabilities of discontinued operations included in the consolidated balance sheet at December 31, 1996 was as follows:

(dollars in thousands)

Current assets	
Receivables	\$ 19,718
Inventories	32,882
Customer tooling	54,368
Other current assets	16,711
Less current liabilities	
Trade payables	77,699
Accrued payroll and benefits	26,984
Other current liabilities	21,598
Net current liabilities	\$ 2,602
Long-term assets	
Investments in affiliated companies	\$ 48,454
Deferred model change	24,181
Net property, plant, and equipment	365,785
Other assets	18,005
Less long-term liabilities	
Deferred income taxes	39,095
Postretirement benefit obligation	59,676
Net long-term assets	\$ 357,654

The condensed statement of earnings of the discontinued operations for the automotive products business for the period through April 18, 1997 and Metals through October 1, 1997 and also the years ended December 31, 1996 and 1995 is presented below.

(dollars in thousands)

	1997	1996	1995
Net sales	\$ 296,167	\$ 862,977	\$ 845,305
Cost of products sold	272,826	787,380	766,013

Gross profit	23,341	75,597	79,292
Selling, general, and administrative expenses	4,761	18,231	18,855
Interest expense	3,210	6,974	5,477
Other income - net	(362)	(210)	(1,142)
	-----	-----	-----
	15,732	50,602	56,102
Provision for income taxes	7,698	19,988	22,048
	-----	-----	-----
Earnings before equity in earnings of affiliates	8,034	30,614	34,054
Equity in earnings of affiliates	7,197	9,554	3,364
	-----	-----	-----
Net earnings	\$ 15,231	\$ 40,168	\$ 37,418
	=====	=====	=====

Liabilities of the discontinued business at December 31, 1997 consist primarily of employee obligations such as workers' compensation and other future estimated costs net of deferred income taxes. Certain expenses have been allocated to the discontinued operations through the date of sale, including interest expense, which was allocated based on the ratio of net assets discontinued to the total consolidated net assets of the corporation.

The cash flow provided (used) by discontinued operations is as follows:

Years ended December 31 (dollars in thousands)	1997	1996	1995
Earnings	\$ 15,231	\$ 40,168	\$ 37,418
Adjustments to reconcile earnings to net cash provided by discontinued operating activities:			
Depreciation	13,246	40,848	33,998
Deferred model change and software amortization	2,802	10,939	10,775
Deferred income taxes	(38,840)	7,898	5,400
Equity in earnings of affiliates, net of dividends (\$7.0 and \$2.9 million in 1997 and 1996, respectively)	2,394	(6,170)	(3,364)
Net change in current assets and liabilities	(107,365)	6,885	(20,124)
Net change in noncurrent assets and liabilities	8,896	14,743	3,585
Other	(2,496)	(1,667)	(3,154)
Cash provided (used) by discontinued operating activities	(106,132)	113,644	64,534
Cash (used) by discontinued investing activities	(52,456)	(177,116)	(82,461)
Proceeds from disposition	773,090	--	--
Tax payments associated with disposition	(106,039)	--	--
	-----	-----	-----
Cash flow provided (used) by discontinued operations	\$ 508,463	\$ (63,472)	\$ (17,927)
	=====	=====	=====

### 3. Acquisitions

On March 31, 1997, the corporation acquired the business of UPPCO, Incorporated (UPPCO), a manufacturer of subfractional C-frame electric motors, for approximately \$60.9 million. On December 6, 1995, the corporation acquired the stock of Peabody TecTank Inc. (TecTank), a manufacturer of dry bulk storage tanks, for approximately \$19.1 million, which included a final purchase price adjustment of \$1.1 million in 1996. The transactions were accounted for as purchases and the consolidated financial statements include the results of UPPCO and TecTank from the respective dates of acquisition. The purchase prices have been allocated to the assets purchased and the liabilities assumed based upon their respective fair values at the date of acquisition. The excess of the purchase prices over the fair values of net assets acquired, \$46.2 million and \$7.0 million for UPPCO and TecTank, respectively, have been recorded as goodwill. The proforma effect of the acquisitions would not be significant to 1997, 1996 or 1995 operating results.

### 4. Statement of Cash Flows

Supplemental cash flow information is as follows:

Years ended December 31 (dollars in thousands)	1997	1996	1995
Change in current assets and liabilities:			
Receivables	\$ 2,870	\$ 13,945	\$ (10,590)
Inventories	7,539	(5,491)	6,292
Other current assets	1,187	434	(432)
Trade payables	(8,346)	13,187	(232)
Accrued liabilities, payroll, and benefits	1,894	(539)	2,704
Current income tax accounts-net	5,653	2,784	(4,389)
	-----	-----	-----
	\$ 10,797	\$ 24,320	\$ (6,647)
	=====	=====	=====



## 5. Inventories

December 31 (dollars in thousands)	1997	1996
Finished products	\$ 45,091	\$ 51,706
Work in process	19,656	19,593
Raw materials	42,870	37,594
Supplies	1,634	1,368
	-----	-----
	109,251	110,261
Allowance to state inventories at LIFO cost	30,202	29,816
	-----	-----
	\$ 79,049	\$ 80,445
	=====	=====

## 6. Property, Plant, and Equipment

December 31 (dollars in thousands)	1997	1996
Land	\$ 6,323	\$ 3,957
Buildings	91,127	80,376
Equipment	352,697	322,683
	450,147	407,016
Less accumulated depreciation	242,391	224,416
	-----	-----
	\$ 207,756	\$ 182,600
	=====	=====

## 7. Long-Term Debt and Lease Commitments

December 31 (dollars in thousands)	1997	1996
Bank credit lines, average year-end interest rate of 4.8% for 1997 and 6.2% for 1996	\$ 1,929	\$ 51,257
Commercial paper, average year-end interest rate of 5.6%	--	59,814
Long-term notes with insurance companies, expiring through 2010, average year-end interest rate of 7.1% for 1997 and 7.0% for 1996	86,172	90,000
Other notes, expiring through 2012, average year-end interest rate of 5.2% for 1997 and 6.6% for 1996	18,461	49,307
	-----	-----
	106,562	250,378
Less amount due within one year	5,590	11,932
	-----	-----
	\$ 100,972	\$ 238,446
	=====	=====

The corporation has a multi-year revolving credit agreement with a group of ten banks which expires June 30, 2001. Due to its significant cash and cash equivalent balances, the corporation elected to reduce this available facility from \$210 million to \$100 million effective September 30, 1997. At its option, the corporation maintains either cash balances or pays fees for bank credit and services.

The corporation's credit agreement and term loans contain certain conditions and provisions which restrict the corporation's payment of dividends. Under the most restrictive of these provisions, retained earnings of \$86.6 million were unrestricted as of December 31, 1997.

Borrowings under the bank credit lines and in the commercial paper market are supported by the revolving credit agreement and accordingly have been classified as long-term. It has been the corporation's practice to renew or replace the credit agreement so as to maintain the availability of debt on a long-term basis and to provide 100 percent backup for its borrowings in the commercial paper market.

Long-term debt, maturing within each of the five years subsequent to December 31, 1997, is as follows: 1998--\$5.6; 1999--\$4.6; 2000--\$9.6; 2001--\$11.1; 2002--\$13.3 million.

Future minimum payments under noncancelable operating leases from continuing operations total \$30.8 million and are due as follows: 1998--\$8.1; 1999--\$6.8; 2000--\$4.4; 2001--\$3.8; 2002--\$2.7; thereafter--\$5.0 million. Rent expense for continuing operations, including payments under operating leases, was \$12.9, \$12.1, and \$10.3 million in 1997, 1996, and 1995, respectively.

Interest paid by the corporation for continuing and discontinued operations, was \$13.0, \$15.1, and \$13.1 million in 1997, 1996, and 1995, respectively.

## 8. Stockholders' Equity

The corporation's authorized capital consists of 3 million shares of Preferred Stock \$1 par value, 14 million shares of Class A Common Stock \$5 par value and 60 million shares of Common Stock \$1 par value. The Common Stock has equal dividend rights with Class A Common Stock and is entitled, as a class, to elect 25 percent of the board of directors and has 1/10th vote per share on all other matters.

During 1997, 1996, and 1995, 7,300, 42,443, and 146,940 shares of Class A Common Stock were converted into Common Stock, respectively. Regular dividends paid on the Class A Common and Common Stock amounted to \$.68, \$.66, and \$.58 per share in 1997, 1996, and 1995, respectively.

Changes in certain components of stockholders' equity are as follows:

	Class A Common Stock	Common Stock	Capital in Excess of Par Value	Foreign Currency Translation Adjustments	Treasury Stock
Balance at December 31, 1994	\$ 30,178	\$ 15,664	\$ 68,209	\$ (8,035)	\$ 8,085
Conversion of Class A Common Stock	(735)	147	588	--	--
Exercise of stock options (net of 3,400 shares surrendered as stock option proceeds)- 13,000 shares	--	--	(22)	--	(72)
Tax benefit from exercise of stock options	--	--	96	--	--
Translation adjustments	--	--	--	536	--
Balance at December 31, 1995	29,443	15,811	68,871	(7,499)	8,013
Conversion of Class A Common Stock	(212)	42	170	--	--
Exercise of stock options - 21,900 shares	--	--	341	--	(198)
Tax benefit from exercise of stock options	--	--	28	--	--
Translation adjustments	--	--	--	98	--
Balance at December 31, 1996	29,231	15,853	69,410	(7,401)	7,815
Conversion of Class A Common Stock	(39)	8	31	--	--
Purchase of treasury stock	--	--	--	--	176,550
Exercise of stock options - 170,150 shares	--	--	2,217	--	(1,540)
Tax benefit from exercise of stock options	--	--	84	--	--
Translation adjustments	--	--	--	(1,637)	--
Sale of Mexican affiliate	--	--	--	7,459	--
Balance at December 31, 1997	\$ 29,192	\$ 15,861	\$ 72,542	\$ (1,579)	\$182,825

On January 27, 1997, the corporation's Board of Directors approved for repurchase 3 million shares of Common Stock. On June 10, 1997 and December 9, 1997, the Board authorized the repurchase of up to \$80 million and \$50 million, respectively, of additional Common Stock. During 1997, the corporation purchased 14,500 shares of Class A Common Stock and 4,807,375 shares of Common Stock. At December 31, 1997, 17,960 and 5,392,894 shares of Class A Common Stock and Common Stock, respectively, were held as treasury stock.

#### 9. Stock Options

The corporation has a Long-Term Executive Incentive Compensation Plan (1990 Plan) under which 2 million shares of Common Stock for granting of nonqualified and incentive stock options have been reserved. In addition, the corporation has a Long-Term Executive Incentive Compensation Plan (1980 Plan) which has terminated except as to outstanding options. Options under both plans become exercisable one year from date of grant and, for active employees, expire ten years after date of grant. The number of shares available for granting of options at December 31, 1997, 1996, and 1995 was 147,700, 264,400, and 470,500, respectively.

Changes in option shares (all Common Stock) were as follows:

	Weighted Average Per Share Exercise Price-1997	1997	Years Ended December 31 1996	1995
Outstanding at beginning of year	\$18.24	1,308,800	1,124,600	963,600
Granted				
1997--\$40.88 per share	40.88	116,700		
1996--\$24.50 and \$27.00 per share			206,100	
1995--\$23.13 and \$25.00 per share				189,100
Exercised				
1997--\$8.44 to \$27.50 per share	22.08	(170,150)		
1996--\$8.44 to \$27.50 per share			(21,900)	
1995--\$7.00 to \$8.00 per share				(16,400)
Canceled or expired	--	--	--	(11,700)
Outstanding at End of Year (1997--\$7.00 to \$40.88 per share)	19.83	1,255,350	1,308,800	1,124,600
Exercisable at End of Year	17.67	1,138,650	1,102,700	935,500

The following table summarizes weighted-average information by range of exercise prices for stock options outstanding and exercisable at December 31, 1997:

Range of Exercise Prices	Options Outstanding at December 31, 1997	Weighted Average Exercise Price	Options Exercisable at December 31, 1997	Weighted Average Exercise Price	Weighted- Average Remaining Contractual Life
\$7.00 to \$8.69	429,800	\$ 7.89	429,800	\$ 7.89	3 years
\$13.00	108,800	13.00	108,800	13.00	5 years
\$21.56 to \$27.50	600,050	25.52	600,050	25.52	7 years
\$40.88	116,700	40.88	--	--	10 years
\$7.00 to \$40.88	1,255,350		1,138,650		6 years

Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The corporation has chosen to continue applying Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock option plans. Accordingly, because the exercise price of the stock options equals the market price of the underlying stock on the date of grant, no compensation expense has been recognized. Had compensation cost been determined based upon the fair value at the grant date for awards under the plans based on the provisions of SFAS No. 123, the corporation's pro forma net earnings and pro forma net earnings per share would have been as follows:

Years ended December 31 (dollars in thousands, except per share amounts)	1997	1996	1995
Net earnings:			
As reported	\$ 153,830	\$ 65,417	\$ 61,413
Pro forma	152,932	64,538	61,200
Net earnings per share:			
As reported:			
Basic	\$8.35	\$3.13	\$2.94
Diluted	8.19	3.09	2.91
Pro forma:			
Basic	8.30	3.08	2.93
Diluted	8.14	3.05	2.90

The weighted-average fair value per option at the date of grant during 1997, 1996, and 1995 using the Black-Scholes option-pricing model, was \$11.27, \$7.45 and \$7.48, respectively. Assumptions were as follows:

	1997	1996	1995
Expected life (years)	4.0	4.0	4.0
Risk-free interest rate	5.9%	6.3%	5.9%
Dividend yield	2.0%	2.1%	2.1%
Expected volatility	30.4%	34.7%	34.7%

#### 10. Retirement Plans

The corporation and its domestic subsidiaries provide retirement benefits for all employees. As of December 31, 1995, the corporation merged its various qualified noncontributory defined benefit plans in the United

States into one pension plan. Benefits for salaried employees are based on an employee's years of service and compensation. Benefits for hourly employees are generally based on specified benefit rates for each year of service. The corporation's funding policy is to contribute amounts which are actuarially determined to provide sufficient assets to meet future benefit payment requirements consistent with the funding requirements of federal laws and regulations. Plan assets consist primarily of marketable equities and debt securities. The corporation also has several foreign pension plans, none of which are material to the corporation's financial position.

The following tables present the components of pension income, the funded status, and the major assumptions used to determine these amounts for domestic pension plans of continuing operations.

Years ended December 31 (dollars in thousands)	1997	1996	1995
Components of pension expense:			
Service cost--			
benefits earned during the year	\$ 2,765	\$ 2,815	\$ 2,069
Interest cost on projected benefit obligation	35,944	9,610	9,564
Return on plan assets:			
Actual return	\$ (107,495)	\$ (29,013)	\$ (45,164)
Deferral of investment return in excess of (less than) expected return	57,650	10,424	30,187
	-----	-----	-----
Net amortization and deferral	20	(1,369)	(1,258)
	-----	-----	-----
Net periodic pension (income)	\$ (11,116)	\$ (7,533)	\$ (4,602)
	=====	=====	=====

The pension income data presented above is for continuing operations. Pursuant to the agreement to sell the automotive products operations, the corporation retained all existing pension assets as well as all pension liabilities earned through the closing date. Accordingly, investment return on these assets and interest cost on the obligation is included in the calculation of net periodic pension income for 1997, whereas, such amounts prior to the sale were excluded as they were allocated to the components of discontinued operations pension expense. Subsequent to the closing date, the buyer assumed the responsibility for pension service earned by active employees of the automotive business.

December 31 (dollars in thousands)	1997	1996
Actuarial present value of benefit obligations:		
Vested benefit obligation	\$ 421,422	\$ 367,268
	=====	=====
Accumulated benefit obligation	\$ 488,967	\$ 422,296
	=====	=====
Projected benefit obligation	\$ 495,215	\$ 441,766
Plan assets at fair value	580,865	503,933
	-----	-----
Plan assets in excess of projected benefit obligation	85,650	62,167
Unrecognized net transition asset at January 1, 1986	(3,315)	(4,253)
Unrecognized net loss (gain)	(47,378)	(35,079)
Prior service cost not yet recognized in periodic pension cost	2,511	23,793
	-----	-----
Prepaid pension asset	\$ 37,468	\$ 46,628
	=====	=====

Major assumptions at year-end:	1997	1996	1995
Discount rate	7.25%	8.00%	7.50%
Rate of increase in compensation level	4.00%	4.00%	4.00%
Expected long-term rate of return on assets	10.25%	10.25%	10.25%

Net periodic pension cost is determined using the assumptions as of the beginning of the year. The funded status is determined using the assumptions as of the end of the year.

The corporation has a defined contribution profit sharing and retirement plan covering salaried nonunion employees which provides for annual corporate contributions of 35 percent to 140 percent of qualifying contributions made by participating employees. The amount of the corporation's contribution in excess of 35 percent is dependent upon the

corporation's profitability. The corporation's contribution including for discontinued operations through date of sale was \$3.5, \$5.3, and \$5.2 million for 1997, 1996, and 1995, respectively.

#### Postretirement Benefits other than Pensions

The corporation has several unfunded defined benefit postretirement plans covering certain hourly and salaried employees which provide medical and life insurance benefits from retirement to age 65. Salaried employees retiring after January 1, 1995 are covered by an unfunded defined contribution plan with benefits based on years of service. Certain hourly employees retiring after January 1, 1996 will be subject to a maximum annual benefit limit. Salaried employees hired after December 31, 1993 are not eligible for postretirement medical benefits.

Pursuant to the agreement to sell the automotive products operations, effective with the closing date, the buyer assumed all obligations for all postretirement benefits other than pensions.

Net periodic postretirement benefit cost of continuing operations included the following components:

Years ended December 31 (dollars in thousands)

	1997	1996	1995
Service cost--benefits attributed to employee service during the year	\$ 222	\$ 298	\$ 251
Interest cost on accumulated postretirement benefit obligation	1,155	1,318	1,335
Amortization of unrecognized net gain	(367)	(117)	(103)
Net periodic postretirement benefit cost	\$ 1,010	\$ 1,499	\$ 1,483

The following table sets forth the plans' status as reflected in the consolidated balance sheet:

December 31 (dollars in thousands)	1997	1996
Accumulated postretirement benefit obligation:		
Retirees	\$ 7,273	\$ 8,487
Fully eligible active plan participants	2,834	331
Other active plan participants	5,101	6,181
	-----	-----
	15,208	14,999
Unrecognized net gain	3,179	3,710
	-----	-----
Accrued postretirement benefit cost	\$ 18,387	\$ 18,709
	=====	=====

Accrued postretirement benefit cost is included in the consolidated balance sheet in the accounts shown below:

December 31 (dollars in thousands)	1997	1996
Accrued liabilities	\$ 1,631	\$ 1,709
Other liabilities	16,756	17,000
	-----	-----
Accrued postretirement benefit cost	\$ 18,387	\$ 18,709
	=====	=====

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation (APBO) is 6 percent. The weighted average discount rate used in determining the APBO was 7.25 and 8.00 percent at December 31, 1997 and 1996, respectively. If the health care cost trend rate was increased by 1 percent, the APBO at December 31, 1997 would increase by \$.6 million and net periodic postretirement benefit cost for 1997 would increase by \$.1 million.

#### 11. Income Taxes

The components of the provision for income taxes of continuing operations consisted of the following:

Years ended December 31 (dollars in thousands)

	1997	1996	1995
Current:			
Federal	\$ 26,475	\$ 13,002	\$ 627
State	607	3,143	1,069
Foreign	894	708	1,689
Deferred	(4,917)	627	11,020
Business tax credits	(1,700)	(400)	(980)
	-----	-----	-----
Provision for income taxes	\$ 21,359	\$ 17,080	\$ 13,425
	=====	=====	=====

The tax provision differs from the statutory U.S. federal rate due to the following items:

Years ended December 31 (dollars in thousands)

	1997	1996	1995
Provision at federal statutory rate	\$ 21,580	\$ 16,178	\$ 13,097
Foreign income taxes	(158)	5	227
State income and franchise taxes	1,450	1,581	1,142
Business and foreign tax credits	(1,700)	(400)	(1,445)
Non-deductible items	568	594	552
Foreign sales corporation benefit	(381)	(959)	(278)
Other	--	81	130
	-----	-----	-----
Provision for income taxes	\$ 21,359	\$ 17,080	\$ 13,425
	=====	=====	=====

The domestic and foreign components of income from continuing operations before income taxes were as follows:

Years ended December 31 (dollars in thousands)

	1997	1996	1995
Domestic	\$ 58,740	\$ 43,527	\$ 33,457
Foreign	2,916	2,696	3,963
	-----	-----	-----
	\$ 61,656	\$ 46,223	\$ 37,420
	=====	=====	=====

Total taxes paid by the corporation including for discontinued operations amounted to \$133.6, \$29.9, and \$25.2 million in 1997, 1996, and 1995, respectively.

No provision for U.S. income taxes has been made on the undistributed earnings of foreign subsidiaries as such earnings are considered to be permanently invested. At December 31, 1997, the undistributed earnings amounted to \$15.7 million. It is not practical to determine the income tax liability that would result had such earnings been repatriated.

The approximate tax effects of temporary differences between income tax and financial reporting of continuing operations are as follows:

December 31 (dollars in thousands)

	1997		1996	
	Assets	Liabilities	Asset	Liabilities
Finance leases	\$ --	\$ 2,025	\$ --	\$ 4,354
Group health insurance and postretirement obligations	8,479	--	9,263	--
Employee benefits	4,286	13,655	4,894	16,939
Product liability and warranty	9,021	--	8,129	--
Tax over book depreciation	--	17,338	--	15,109
All other	--	5,361	--	4,739
	-----	-----	-----	-----
	\$ 21,786	\$ 38,379	\$ 22,286	\$ 41,141
	=====	=====	=====	=====
Net liability		\$ 16,593		\$ 18,855
		=====		=====

These deferred tax assets and liabilities are classified in the balance sheet as current or long-term based on the balance sheet classification of the related assets and liabilities. The balances are as follows:

December 31 (dollars in thousands)

	1997	1996
Current deferred income tax assets	\$ 11,849	\$ 12,416
Long-term deferred income tax liabilities	(28,442)	(31,271)
	-----	-----
Net liability	\$ 16,593	\$ 18,855
	=====	=====

## 12. Litigation and Insurance Matters

The corporation is involved in various unresolved legal actions, administrative proceedings and claims in the ordinary course of its business involving product liability, property damage, insurance coverage, patents and environmental matters including the disposal of hazardous waste. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible loss or recovery, the corporation believes these unresolved legal actions will not have a material effect on its financial position or results of operations. The following paragraphs summarize noteworthy actions and proceedings.

A lawsuit for damages and declaratory judgments in the Circuit Court of Milwaukee County, State of Wisconsin, in which the corporation and Harvestore are plaintiffs is pending against three insurance companies for failure to pay in accordance with liability insurance policies issued to the corporation. The insurers have failed to pay, in full or in part, certain judgments, settlements and defense costs incurred in connection



heating systems and protective industrial coatings	287.5	291.3	276.0	271.5	248.1	33.4	32.8	32.2	30.1	26.5
Storage & Fluid Handling Technologies										
Fiberglass reinforced piping systems, liquid & dry bulk storage systems	154.7	152.8	103.4	95.3	92.2	10.9	11.1	11.0	12.6	8.4
	<u>\$832.9</u>	<u>\$781.2</u>	<u>\$696.7</u>	<u>\$648.0</u>	<u>\$582.9</u>	<u>89.7</u>	<u>86.6</u>	<u>75.1</u>	<u>66.1</u>	<u>46.5</u>
Financial services						(4.1)	(2.8)	(3.6)	(6.3)	.1
General corporate and research and development expense						(24.9)	(29.5)	(26.5)	(25.1)	(22.7)
Interest income (expense) - net						1.0	(8.1)	(7.6)	(8.0)	(9.6)
Earnings From Continuing Operations, Before Income Taxes and Equity in Loss of Joint Ventures						<u>\$61.7</u>	<u>\$46.2</u>	<u>\$37.4</u>	<u>\$26.7</u>	<u>\$14.3</u>

(dollars in millions)

	1997	1996	1995	1997	1996	1995	1997	1996	1995
Electric Motor Technologies	\$242.2	\$165.5	\$162.5	\$12.9	\$11.9	\$12.3	\$27.9	\$19.8	\$12.9
Water Systems Technologies	138.6	141.1	131.6	6.4	6.1	6.0	9.0	13.0	9.8
Storage & Fluid Handling Technologies	90.1	85.3	88.4	4.1	4.1	3.0	7.5	4.2	3.4
Investments in joint ventures	25.6	14.6	3.5	--	--	--	--	--	--
Corporate assets	220.0	107.0	110.6	.5	.5	.4	.5	.8	.7
Discontinued operations	--	357.7	251.9	13.2	40.8	34.0	39.1	132.4	58.8
Total	<u>\$716.5</u>	<u>\$871.2</u>	<u>\$748.5</u>	<u>\$37.1</u>	<u>\$63.4</u>	<u>\$55.7</u>	<u>\$84.0</u>	<u>\$170.2</u>	<u>\$85.6</u>

Electric Motor Technologies sales included sales to York International of \$93.5, \$91.5, and \$72.5 million in 1997, 1996, and 1995, respectively.

#### 14. Quarterly Results of Operations (Unaudited)

(dollars in millions, except per share amounts)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	1997	1996	1997	1996	1997	1996	1997	1996
Net sales - continuing	196.2	194.8	224.9	206.5	206.0	188.1	205.8	191.8
Gross profit - continuing	42.8	40.4	48.6	44.7	38.9	40.6	40.4	41.3
Earnings								
Continuing	7.1	5.7	11.7	7.3	9.0	6.2	9.8	6.0
Discontinued	12.8	11.6	96.1	11.4	1.0	6.4	6.4	10.8
Net earnings	19.9	17.3	107.7	18.7	10.0	12.6	16.2	16.8
Basic earnings per share								
Continuing	.35	.28	.62	.35	.51	.29	.58	.29
Discontinued	.63	.55	5.09	.55	.06	.31	.38	.51
Net earnings	.98	.83	5.71	.90	.57	.60	.96	.80
Diluted earnings per share								
Continuing	.34	.27	.61	.34	.50	.29	.56	.28
Discontinued	.62	.55	4.99	.54	.05	.30	.37	.51
Net earnings	.96	.82	5.60	.88	.55	.59	.93	.79
Common dividends declared	.17	.15	.17	.17	.17	.17	.17	.17

Net earnings per share is computed separately for each period and, therefore, the sum of such quarterly per share amounts may differ from the total for the year.

See note 7 for restrictions on the payment of dividends.

#### ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

#### PART III

#### ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information included under the heading "Election of Directors" in the corporation's definitive Proxy Statement dated March 2, 1998 for the Annual Meeting of Stockholders to be held April 8, 1998 is incorporated herein by reference. The information required regarding Executive Officers of the corporation is included in Part I of this Form 10-K under the caption "Executive Officers of the Corporation."

The information included under the heading "Compliance with Section 16(a) of the Securities Exchange Act" in the corporation's definitive Proxy



Statement dated March 2, 1998 for the Annual Meeting of Stockholders to be held on April 8, 1998 is incorporated herein by reference.

ITEM 11 - EXECUTIVE COMPENSATION

The information included under the heading "Executive Compensation" in the corporation's definitive Proxy Statement dated March 2, 1998 for the April 8, 1998 Annual Meeting of Stockholders is incorporated herein by reference, except for the information required by paragraphs (i), (k) and (l) of Item 402(a)(8) of Regulation S-K.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information included under the headings "Principal Stockholders" and "Security Ownership of Directors and Management" in the corporation's Proxy Statement dated March 2, 1998 for the April 8, 1998 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information included under the headings and "Compensation Committee Interlocks and Insider Participation" in the corporation's Proxy Statement dated March 2, 1998 for the April 8, 1998 Annual Meeting of Stockholders is incorporated herein by reference.

PART IV

ITEM 14 - EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Financial Statements and Financial Statement Schedules

Form 10-K  
Page Number

The following consolidated financial statements of A. O. Smith Corporation are included in Item 8:

Consolidated Balance Sheet at December 31, 1997 and 1996 . . . . .	18
For each of the three years in the period ended December 31, 1997:	
- Consolidated Statement of Earnings and Retained Earnings . . . . .	19
- Consolidated Statement of Cash Flows . . . . .	20
Notes to Consolidated Financial Statements . . . . .	21-39

The following consolidated financial statement schedule of A. O. Smith Corporation is included in Item 14(d):

Schedule II - Valuation and Qualifying Accounts . . . . .	42
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All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the last quarter of 1997.

(c) Exhibits - see the Index to Exhibits on pages 47 - 48 of this report.

Pursuant to the requirements of Rule 14a-3(b)(10) of the Securities Exchange Act of 1934, as amended, the corporation will, upon request and upon payment of a reasonable fee not to exceed the rate at which such copies are available from the Securities and Exchange Commission, furnish copies to its security holders of any exhibits listed in the Index to Exhibits.

Management contracts and compensatory plans and arrangements required to be filed as exhibits pursuant to Item 14(c) of Form 10-K are listed as Exhibits 10(a) through 10(h) in the Index to Exhibits.

A. O. SMITH CORPORATION

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(000 Omitted)

Years ended December 31, 1997, 1996, and 1995

Description	Balance at Beginning of Year	Additions		Deductions 2	Balance at the End Year
		Charged to Costs and Expenses 1	Charged to Other Accounts		
1997:					
Valuation allowance for trade and notes receivable	\$ 3,473	\$ 2,065	\$ --	\$ 2,698	\$ 2,840
1996:					
Valuation allowance for trade and notes receivable	4,796	615	--	1,938	3,473
1995:					
Valuation allowance for trade and notes receivables	12,475	4,306	--	11,985	4,796

1 Provision (credit) based upon estimated collection.

2 Uncollectible amounts charged against the reserve.

For the purposes of complying with the amendments to the rules governing Form S-8 (effective July 13, 1990) under the Securities Act of 1933, the undersigned registrant hereby undertakes as follows, which undertaking shall be incorporated by reference into registrant's Registration Statements on Form S-8 Nos. 2-72542 filed on May 26, 1981, Post-Effective Amendment No. 1, filed on May 12, 1983, Post-Effective Amendment No. 2, filed on December 22, 1983, Post-Effective Amendment No. 3, filed on March 30, 1987; 33-19015 filed on December 11, 1987; 33-21356 filed on April 21, 1988; Form S-8 No. 33-37878 filed November 16, 1990; Form S-8 No. 33-56827 filed December 13, 1994; and Form S-8 No. 333-05799 filed June 12, 1996.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on behalf of the undersigned, thereunto duly authorized.

A. O. SMITH CORPORATION

By: /s/ Robert J. O'Toole  
Robert J. O'Toole  
Chief Executive Officer

Date: March 23, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below as of March 23, 1998 by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name and Title	Signature
ROBERT J. O'TOOLE Chairman of the Board of Directors, President, and Chief Executive Officer	/s/ Robert J. O'Toole Robert J. O'Toole
GLEN R. BOMBERGER Executive Vice President, Chief Financial Officer, and Director	/s Glen R. Bomberger Glen R. Bomberger
JOHN J. KITA Vice President, Treasurer and Controller	/s/ John J. Kita John J. Kita
TOM H. BARRETT, Director	/s/ Tom H. Barrett Tom H. Barrett
AGNAR PYTTE, Director	/s/ Agnar Pytte Agnar Pytte
DONALD J. SCHUENKE, Director	/s/ Donald J. Schuenke Donald J. Schuenke
ARTHUR O. SMITH, Director	/s/ Arthur O. Smith Arthur O. Smith
BRUCE M. SMITH, Director	/s/ Bruce M. Smith Bruce M. Smith

INDEX TO EXHIBITS

Exhibit Number	Description
(3)(i)	Restated Certificate of Incorporation of the corporation as amended April 5, 1995 incorporated by reference to the quarterly report on Form 10-Q for the quarter ended March 31, 1995 and as further amended on February 5, 1996 and incorporated by reference to the annual report on Form 10-K for the year ended December 31, 1995
(3)(ii)	By-laws of the corporation as amended October 7, 1997 incorporated by reference to the quarterly report on Form 10-Q for the quarter ended September 30, 1997
(4)	<p>(a) The corporation's outstanding long-term debt is described in Note 7 to the Consolidated Financial Statements. None of the long-term debt is registered under the Securities Act of 1933. None of the debt instruments outstanding at the date of this report exceeds 10% of the corporation's total consolidated assets, except for the item disclosed as exhibit 4(b) below. The corporation agrees to furnish to the Securities &amp; Exchange Commission, upon request, copies of any instruments defining rights of holders of long-term debt described in Note 7.</p> <p>(b) Fourth Amendment dated June 19, 1996 to the Amended and Restated Credit Agreement dated as of February 26, 1993 incorporated by reference to the quarterly report on Form 10-Q for the quarter ended June 30, 1996.</p> <p>(c) A. O. Smith Corporation Restated Certificate of Incorporation as amended April 5, 1995 [incorporated by reference to Exhibit (3)(i) above]</p>
(10)	<p>Material Contracts (a) 1990 Long-Term Executive Incentive Compensation Plan, as amended, incorporated by reference to the Form S-8 Registration Statement filed by the corporation on December 13, 1994, (Reg. No. 33-56827)</p> <p>(b) 1980 Long-Term Executive Incentive Compensation Plan incorporated by reference to the corporation's Proxy Statement dated March 1, 1988 for an April 6, 1988 Annual Meeting of Shareholders</p> <p>(c) Executive Incentive Compensation Plan, as amended, incorporated by reference to Exhibit A to the Proxy Statement dated April 21, 1997 for a May 21, 1997 Annual Meeting of Stockholders</p> <p>(d) Supplemental Benefit Plan, as amended, incorporated by reference to the Annual Report on Form 10-K for the fiscal year ended December 31, 1992</p> <p>(e) Executive Life Insurance Plan, incorporated by reference to the Annual Report on Form 10-K for the fiscal year ended December 31, 1992</p> <p>(f) Corporate Directors' Deferred Compensation Plan, as amended, incorporated by reference to the Annual Report on Form 10-K for the fiscal year ended December 31, 1992</p> <p>(g) Non-employee Directors' Retirement Plan incorporated by reference to the quarterly report on Form 10-Q for the quarter ended June 30, 1991</p>
(21)	Subsidiaries [Page 43]
(23)	Consent of Independent Auditors [Page 44]
*(27)	Financial Data Schedules

\*Filed Herewith

## SUBSIDIARIES

The following lists all significant subsidiaries and affiliates of A. O. Smith Corporation. Certain direct and indirect subsidiaries of A. O. Smith Corporation have been omitted because, considered in the aggregate as a single subsidiary, such subsidiaries would not constitute a significant subsidiary.

Name of Subsidiary	Jurisdiction in Which Incorporated
AOS Holding Company	Delaware
A. O. Smith International Corporation	Delaware
A. O. Smith Export, Ltd.	Barbados
Claymore Insurance Company, Ltd.	Bermuda
A. O. Smith Enterprises Ltd.	Canada
A. O. Smith L'eau Chaude S.a.r.l.	France
A. O. Smith Electric Motors (Ireland) Ltd.	Ireland
A. O. Smith Holding (Ireland) Ltd.	Ireland
Motores Electricos de Juarez, S.A. de C.V.	Mexico
Motores Electricos de Monterrey, S.A. de C.V.	Mexico
Productos de Agua, S.A. de C.V.	Mexico
Productos Electricos Aplicados, S.A. de C.V.	Mexico
A. O. Smith Water Products Company B.V.	The Netherlands
Harbin A. O. Smith Fiberglass Products Company Limited (HSF)	China
Nanjing A. O. Smith Water Heater Co. Ltd.	China
Motores Muppca, C.A.	Venezuela

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 2-72542, 33-19015, 33-21356, 33-37878, 33-56827 and 333-05799) pertaining to the 1980 Long-Term Executive Incentive Compensation Plan and the 1990 Long-Term Executive Incentive Compensation Plan of A. O. Smith Corporation and in the related prospectuses of our report dated January 19, 1998, with respect to the consolidated financial statements and schedule of A. O. Smith Corporation included in this Annual Report (Form 10-K) for the year ended December 31, 1997.

ERNST & YOUNG LLP

Milwaukee, Wisconsin  
March 19, 1998

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF A.O. SMITH CORPORATION AS OF AND FOR THE PERIOD ENDED DECEMBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

12-MOS		
	DEC-31-1997	
	DEC-31-1997	5,845
		140,051
		126,232
		0
		79,049
		365,728
		450,147
		(242,391)
		716,516
	127,882	
		100,972
	0	
		0
		45,053
		354,652
716,516		
		832,937
	832,937	
		662,227
		662,227
		101,292
		0
		7,762
		61,656
		21,359
	37,553	
		116,277
		0
		0
		153,830
		8.35
		8.19

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF A.O. SMITH CORPORATION AS OF AND FOR THE PERIOD ENDED DECEMBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

12-MOS		
	DEC-31-1996	
	DEC-31-1996	6,405
		0
	121,571	
		0
	80,445	
	225,374	407,016
	(224,416)	
	871,152	
124,552		238,446
	0	0
		45,084
871,152		379,555
		781,193
	781,193	
		614,218
	614,218	
	116,532	
		0
	8,114	
	42,329	
		17,080
25,249		
	40,168	
		0
		0
	65,417	
	3.13	
	3.09	



THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF A.O. SMITH CORPORATION AS OF AND FOR THE PERIOD ENDED DECEMBER 31, 1995 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

12-MOS		
	DEC-31-1995	
	DEC-31-1995	
		4,807
		0
	135,515	
		0
	74,955	
	350,261	
		369,625
	(207,749)	
	946,942	
213,647		
		190,938
0		0
		190,938
		327,110
946,942		
		696,700
	696,700	
		555,578
	555,578	
	96,086	
		0
	7,616	
	37,420	
		13,425
23,995		
	37,418	
		0
		0
	61,413	
	2.94	
	2.91	